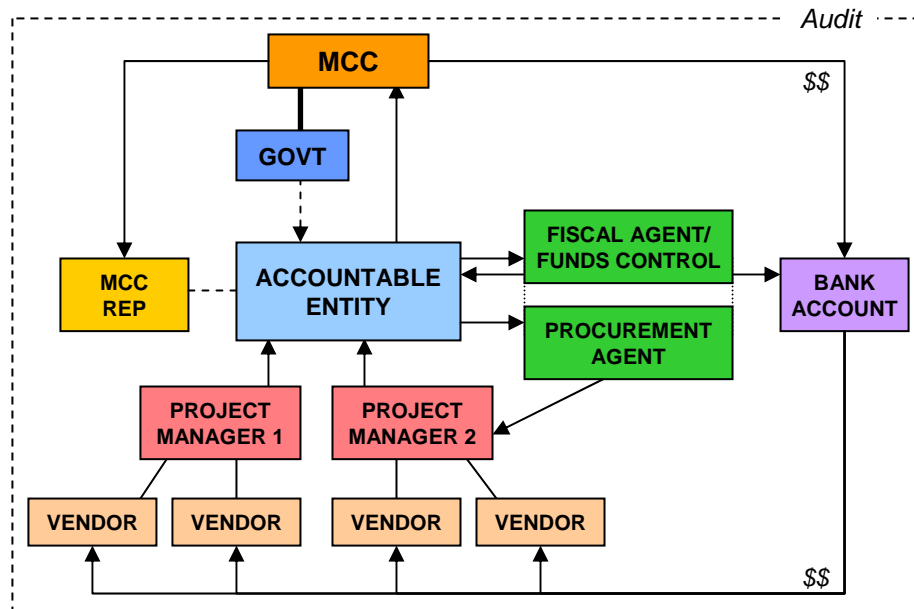


ELEMENTS OF FISCAL ACCOUNTABILITY¹



¹This diagram and those on subsequent pages are for illustrative purposes only.

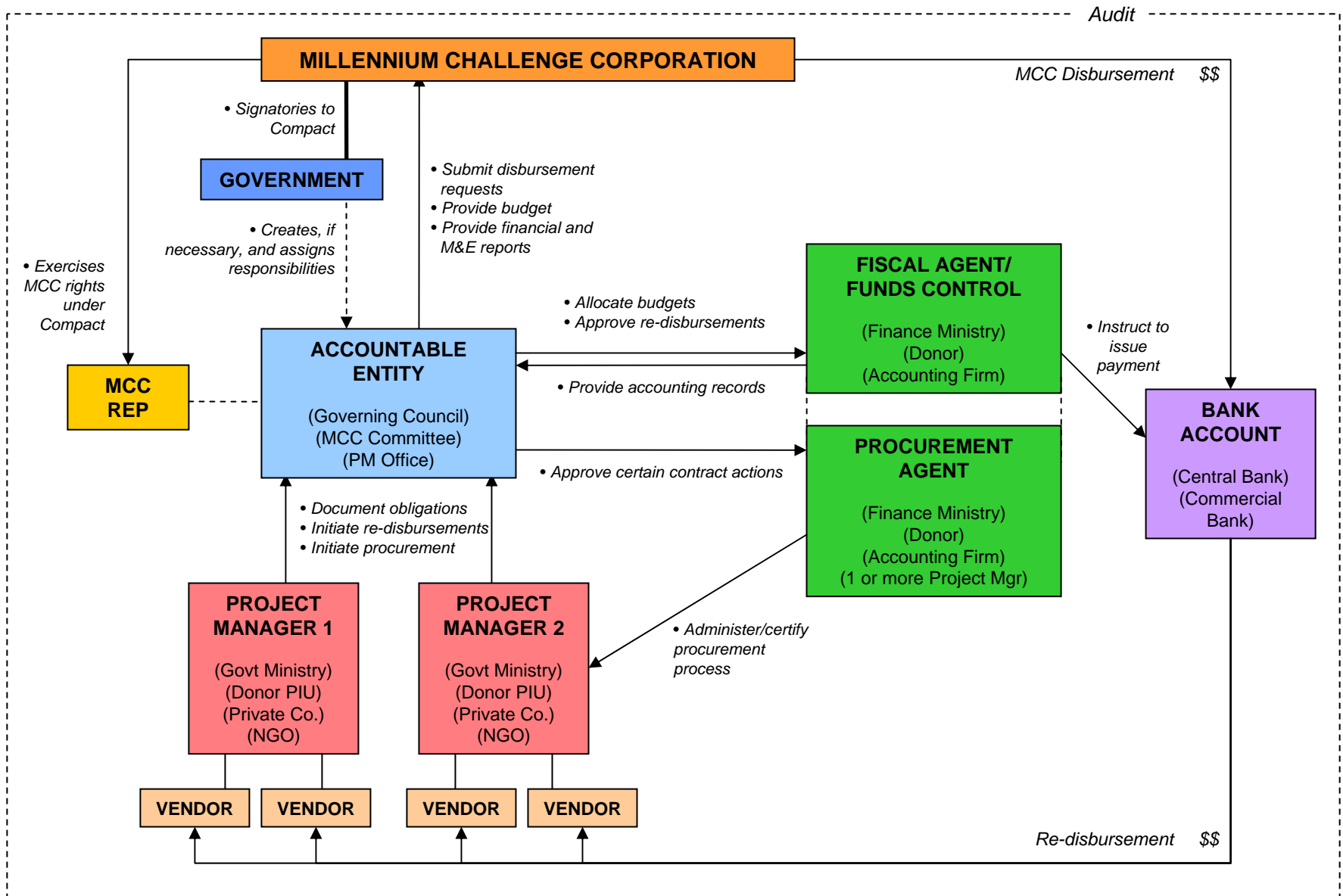
INTRODUCTION TO FISCAL ACCOUNTABILITY

- A key element of fiscal accountability is the presence of checks and balances in the decision-making process.
- This is not a universal standard but a representation of the individual elements that must eventually be defined.
- Illustrative models:

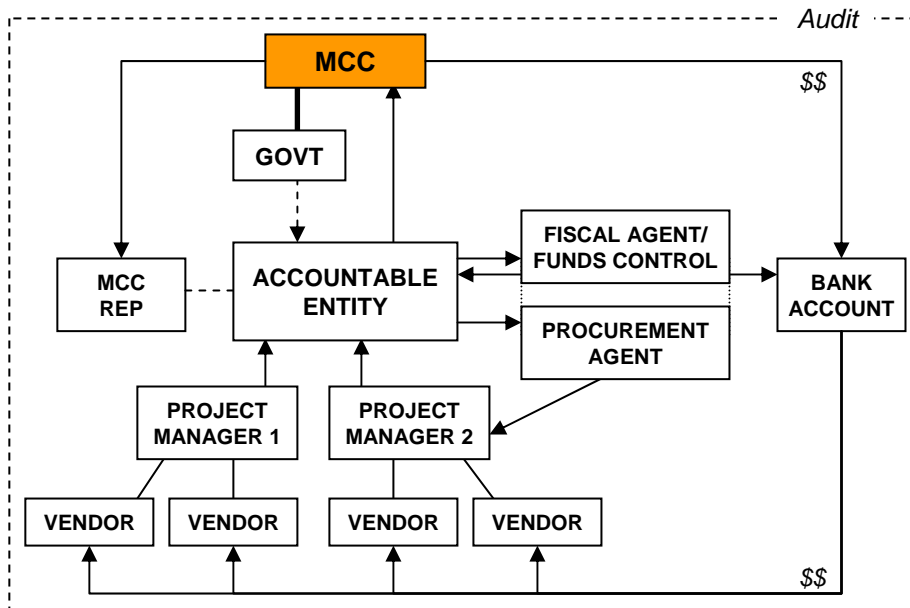
	<u>Government</u>	<u>Non-Government</u>
Accountable Entity–	Prime Minister or Cabinet	MCC Steering Committee
Fiscal Agent--	Ministry of Finance	Accounting Firm
Procurement Agent-	Ministry of Finance	Private implementer
Bank Account--	Central Bank	Commercial Bank
Project Managers--	Line Ministries	NGOs

- The appropriate entity to serve these functions should be those that best serve the MCC Compact objectives.

FISCAL ACCOUNTABILITY ELEMENTS



FISCAL ACCOUNTABILITY ELEMENTS



MCC

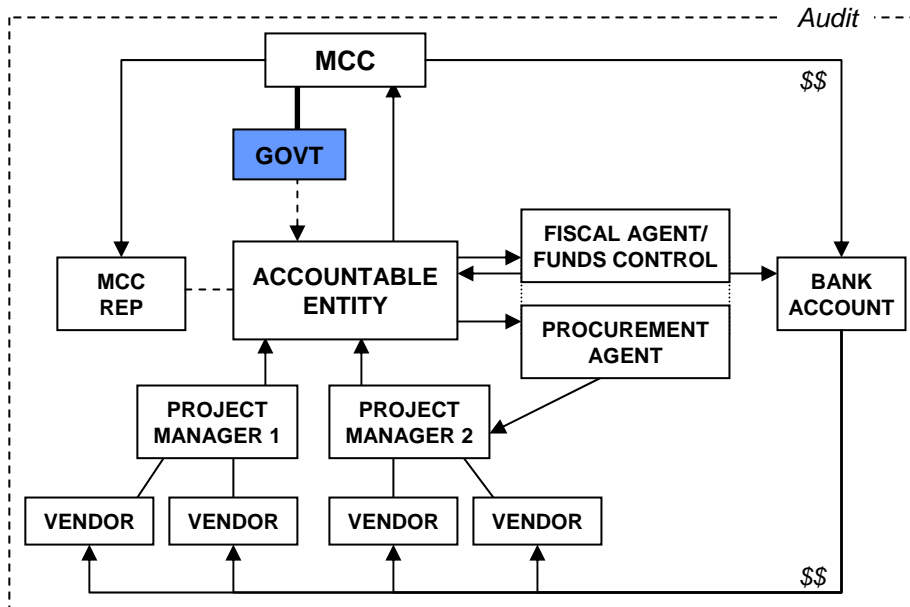
CHARACTERISTICS:

- **Signatory** to a Compact
- **Not** implementing or operating **in-country** (except for MCC representative)

RESPONSIBILITIES:

- **Reserves rights of approval/ agreement** for major appointments, transactions and procurements, changes in budget allocations, and other key issues.
- **Provides initial MCC Disbursement.** Approves subsequent periodic MCC Disbursements, likely to be quarterly, which will be subject to a proper accounting of previous disbursements, performance of country under Compact and projected cash needs.

FISCAL ACCOUNTABILITY ELEMENTS



Government

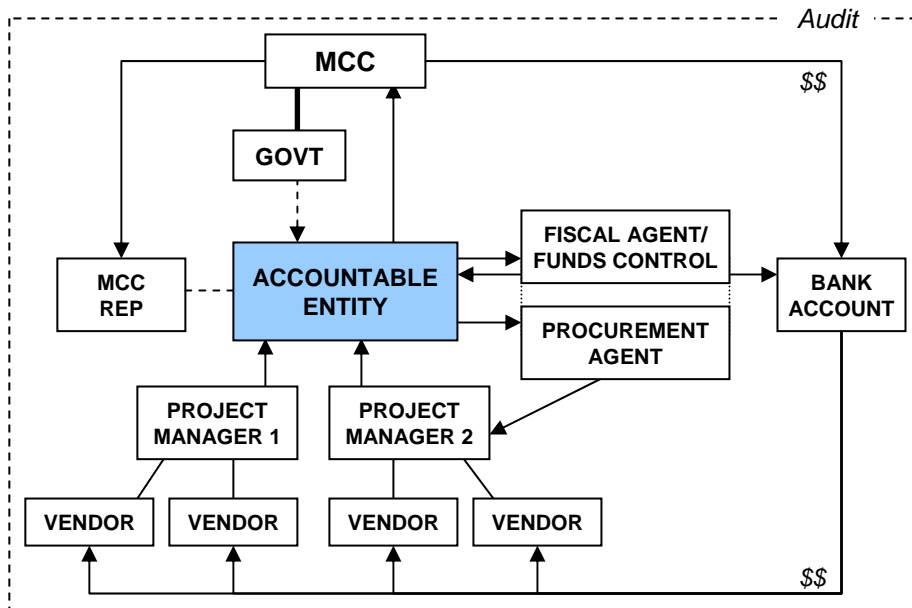
CHARACTERISTICS:

- **Signatory** to a Compact – exact official needs to be identified.

RESPONSIBILITIES:

- **Assigns, delegates or contracts most responsibilities** to an Accountable Entity.
- **Retains independent responsibility and oversight** for successful implementation of, and compliance with, the Compact

FISCAL ACCOUNTABILITY ELEMENTS



Accountable Entity

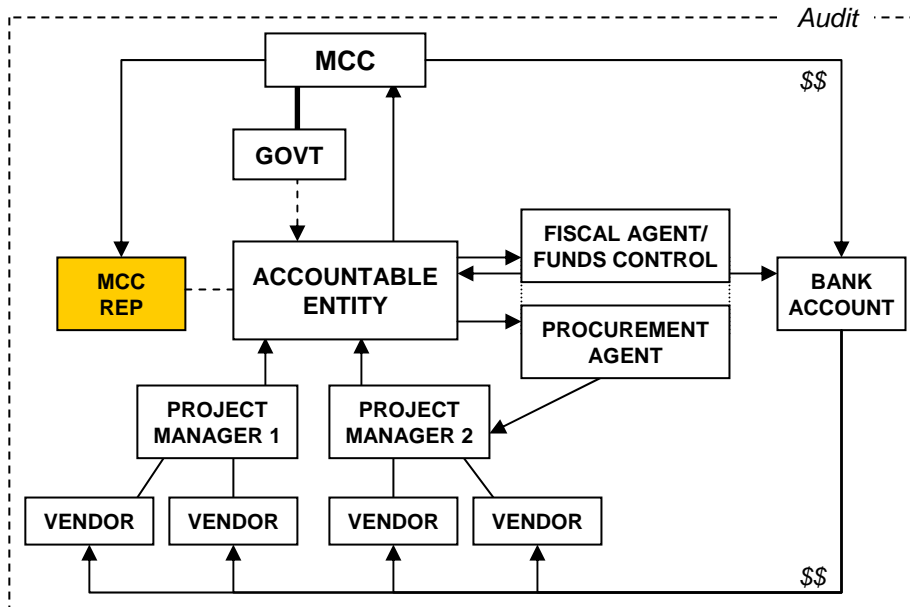
CHARACTERISTICS:

- **Legal entity** capable of contracting and exercising formal authorities.
- **Likely to include a Board** exercising oversight and taking major decisions, and a permanent staff (secretariat) exercising daily overall management of the entire MCC program.
 - **Non-government Board members** (private sector, NGO) with equal rights desirable to enhance transparency and assurance of an ongoing consultative process.
 - Procedures for appointing/removing Board members, any compensation, reimbursement, indemnification, exact authorities, and operational procedures must be clearly defined in a Governance Agreement or other Compact related document.

RESPONSIBILITIES:

- **Exercises government responsibilities** under the Compact.
- **Contracts with** Project Managers, Fiscal Agent(s) and Auditors.
- **Approves significant contract actions and requests for payments.** Approval is tiered with Board affirmatively approving above a threshold, permanent staff approving below that threshold. Smaller actions may be delegated to the Project Managers.

FISCAL ACCOUNTABILITY ELEMENTS



MCC Representative

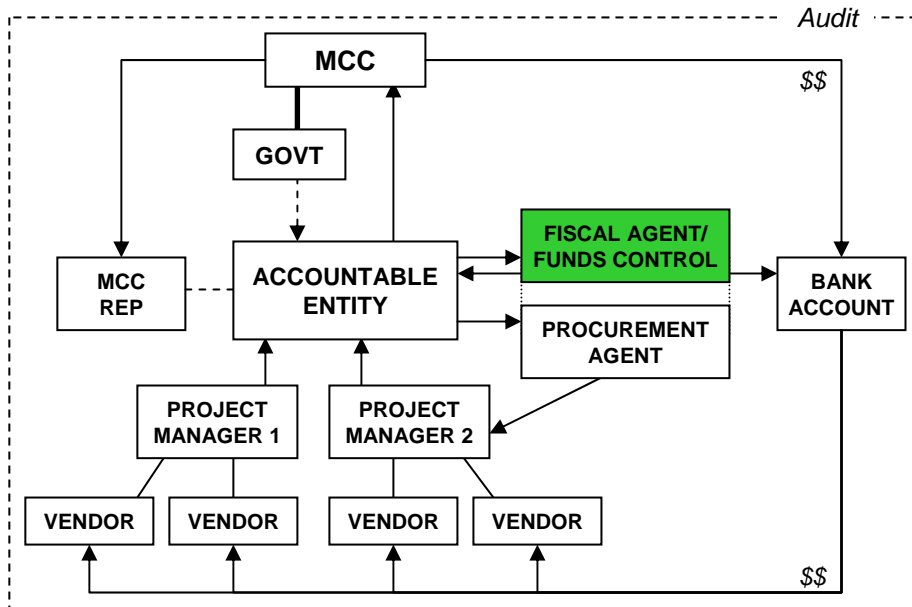
CHARACTERISTICS:

- Has right to be present and participate at Accountable Entity activities, and receive all reports even if not a formal member.

RESPONSIBILITIES:

- Exercises rights retained by MCC under terms of Compact. Exercises those rights as an agent of MCC, not in any official capacity of an in-country entity.
- *Rights will include agreement/approval of certain contract actions, appointments and payments above a certain threshold or or of a sensitive nature, re-allocation of budgets, selection of auditors, and others as outlined in the Compact or related agreement.*

FISCAL ACCOUNTABILITY ELEMENTS



Fiscal Agent: Financial Management

ALTERNATIVE EXAMPLES:

- Ministry of Finance
- Other donor unit
- Accounting firm
- Global project management firm
- Trust managed by an independent party

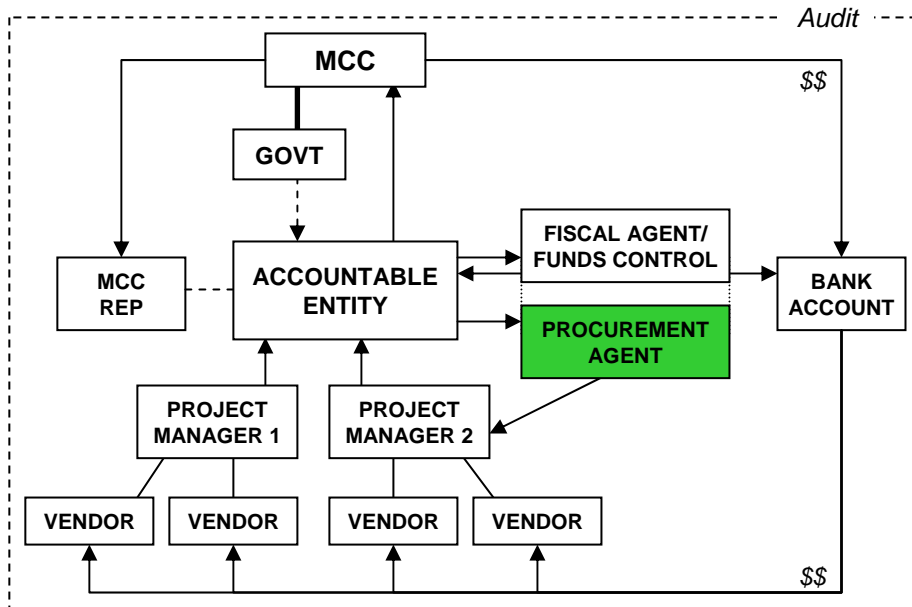
CHARACTERISTICS:

- **Appointed** by the Government or Accountable Entity and approved by MCC
- **Signatory** to bank account.
- **Independent** in execution of duties related to funds control. Separates the functions of approval and disbursement.
- **Identified prior** to signing a Compact unless there are several acceptable candidates, in which case the methodology and criteria for selection must be agreed.

RESPONSIBILITIES MAY INCLUDE:

- **Funds control** and documentation
- Responsible for **proper and consistent accounting**.
- Responsible for **assurance** that transactions are properly authorized and documented in accordance with established control procedures.
- **Instructs bank to re-disburse Special Account.**
- **Produces financial reports.**
- **Reconciles cash account to accounting records.**

FISCAL ACCOUNTABILITY ELEMENTS



Procurement Agent

ALTERNATIVE EXAMPLES:

- Fiscal Agent/Financial Management
- Ministry of Finance
- Centralized government procurement agency
- Other donor unit
- Accounting firm
- Project manager

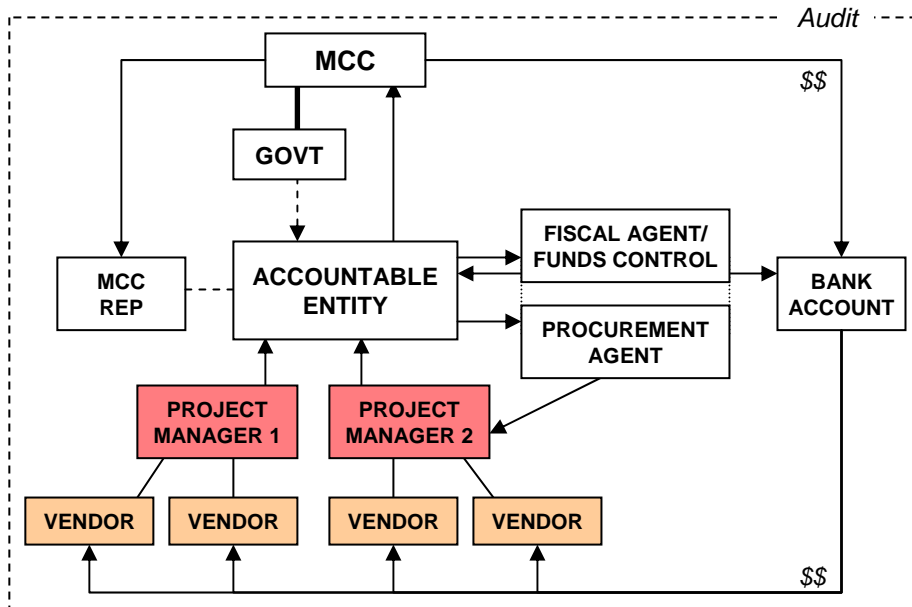
CHARACTERISTICS:

- **Appointed** by the Government or Accountable Entity and approved by MCC
- **Procurement** is one of the highest risk areas of fiscal accountability.
- For the sake of efficiency, **more than one** Fiscal Agent/Procurement may exist and placed within several Project Managers.
- **Procurement standards** identified before funds are disbursed. Could be government standards, standards of international organizations (World Bank, United Nations) or standards of other donors.

RESPONSIBILITIES:

- Responsible for **impartially administering and/or certifying a process for procurement** up to the point of selection that adheres to a defined set of procurement standards.

FISCAL ACCOUNTABILITY ELEMENTS



Project Manager

ALTERNATIVE EXAMPLES:

- Line Ministry
- Donor PIU
- Private firm
- NGO

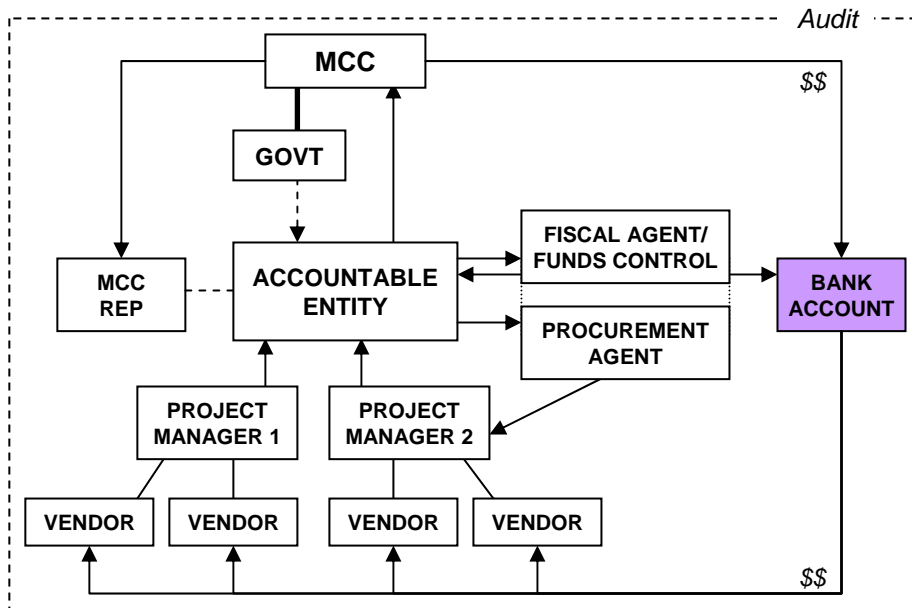
CHARACTERISTICS:

- **Appointed** by the Government or the Accountable Entity and approved by MCC
- **Typically Identified prior to signing a Compact** unless there are several potentially acceptable candidates, in which case the methodology and criteria for selection must be agreed.
- **Must allow access by the Inspector General** or its representative to its operations.

RESPONSIBILITIES:

- Responsible for managing the **implementation** of an element of an MCC Compact.
- **Initiates payment requests** and provides first level of authorization, certifying receipt of goods or services.

FISCAL ACCOUNTABILITY ELEMENTS



Bank Account

ALTERNATIVE EXAMPLES:

- Central Bank
- Commercial bank

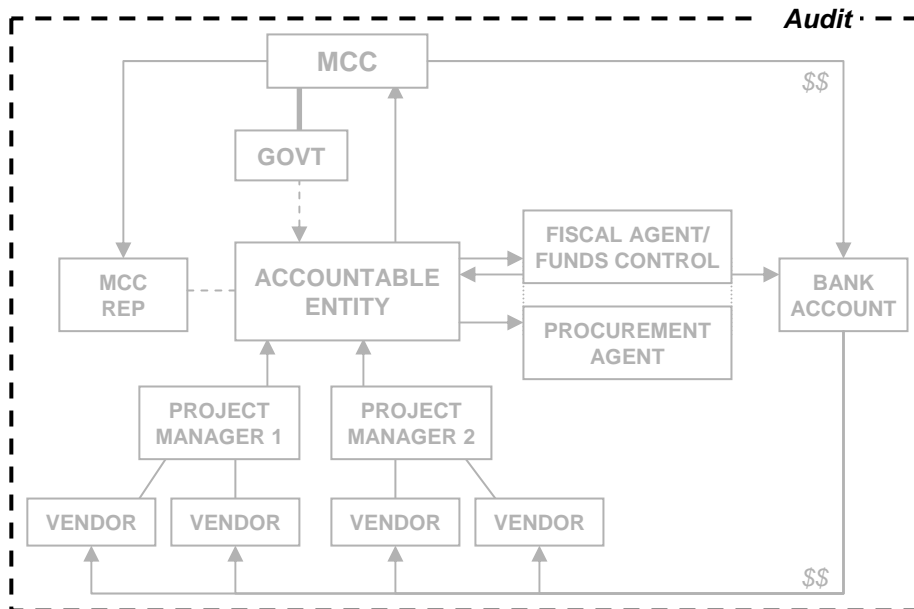
CHARACTERISTICS:

- **More than one bank account** for an MCC program highly undesirable. Additional bank accounts dramatically increase risk and cost.
 - In almost all cases, MCC funds should be in a **completely separate bank account** and never co-mingled with funds from Government or other donors.

RESPONSIBILITIES:

- **Serves pure banking functions** of custodianship, re-disbursement, and transaction listing.

FISCAL ACCOUNTABILITY ELEMENTS



Auditors

ALTERNATIVE EXAMPLES:

- International accounting firm
- Local accounting firm
- Supreme Audit Institution

CHARACTERISTICS:

- **Appointed by the Accountable Entity and approved by MCC and the Inspector General.** IG has lists of approved auditors for most countries and a process to add auditors to the list.

RESPONSIBILITIES:

- **Contracts with** the Accountable Entity.
- Audits can be **conducted for both financial information and compliance** with procurement procedures.
- **Audits must occur at least annually.** When conditions warrant, audits may occur more frequently.
- In some countries, we may require “**concurrent auditing**” – very frequent auditing requiring that the auditor report in two weeks or less.

FISCAL ACCOUNTABILITY ELEMENTS

